

Message Text

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ORIGIN EB-07

INFO OCT-01 AF-08 ARA-06 EUR-12 ISO-00 COME-00 AGR-05

AGRE-00 STR-04 CIEP-01 CEA-01 L-03 FRB-03 OMB-01

ITC-01 SP-02 USIA-06 AID-05 CIAE-00 INR-07 IO-13

LAB-04 NSAE-00 OIC-02 SIL-01 TRSE-00 EA-07 NEA-10

PA-01 PRS-01 /112 R

DRAFTED BY EB/ICD/TRP:TJO'DONNELL:BLO

APPROVED BY EB/ICD/TRP:TJO'DONNELL

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R 170256Z SEP 76

FM SECSTATE WASHDC

TO AMEMBASSY BRASILIA

INFO AMEMBASSY ABIDJAN

AMEMBASSY BOGOTA

AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY MEXICO

AMEMBASSY PARIS

AMCONSUL RIO DE JANEIRO

AMEMBASSY SAN SALVADOR

AMCONSUL SAO PAULO

AMEMBASSY TANANARIVE

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E.O. 11652: N/A

TAGS: ETRD, EAGR, BR

SUBJECT: BRAZIL COFFEE PURCHASES

1. FOLLOWING IS TEXT OF AIDE MEMOIRE PRESENTED TO
DESIGNATE ASSISTANT SECRETARY KATZ BY AMBASSADOR PINHEIRO
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ON SEPTEMBER 16.

BEGIN TEXT

THE BRAZILIAN GOVERNMENT DEEPLY REGRETS THAT NOTWITHSTANDING THE CLARIFICATIONS SET OUT IN THE AIDE-MEMOIRE SUBMITTED TO THE DEPARTMENT OF STATE BY THE EMBASSY OF BRAZIL ON JULY 28, THE GOVERNMENT OF THE UNITED STATES SHOULD STILL ENTERTAIN DOUBTS AS TO THE BEHAVIOR OF BRAZIL IN THE INTERNATIONAL COFFEE MARKET, AS MAY BE INFERRED FROM THE AIDE-MEMOIRE OF SEPTEMBER 10 OF THE DEPARTMENT OF STATE.

THE BRAZILIAN GOVERNMENT CONSIDERS IT STILL MORE SURPRISING THAT THE UNITED STATES GOVERNMENT SHOULD INSIST ON A BILATERAL TREATMENT OF THE MATTER, WHEREAS THE DEPARTMENT OF STATE, IN ITS AIDE-MEMOIRE OF AUGUST 5, HAD DECLARED THAT THE INTERNATIONAL COFFEE ORGANIZATION WAS THE PROPER FORUM FOR THE DISCUSSION OF TRANSACTIONS BETWEEN EXPORTER MEMBERS, HAVING IN VIEW THAT SUCH OPERATIONS WOULD GIVE RISE TO TECHNICAL QUESTIONS RELATING TO THE APPLICATION OF THE SYSTEM OF CERTIFICATES OF ORIGIN WHEN QUOTAS ARE NOT IN FORCE.

DESPITE THE SURPRISE WITH WHICH IT VIEWS THIS MANIFESTATION OF DOUBTS AS TO ITS DETERMINATION TO COMPLY WITH THE COMMITMENTS UNDERTAKEN IN THE 1976 INTERNATIONAL COFFEE AGREEMENT, THE BRAZILIAN GOVERNMENT, REITERATING AND COMPLEMENTING THE CLARIFICATIONS PREVIOUSLY RENDERED, WISHES TO DRAW THE ATTENTION OF THE UNITED STATES GOVERNMENT TO THE FOLLOWING POINTS:

(A) UP TO LATTER PART OF AUGUST OF THE CURRENT YEAR, BRAZIL HAD PLACED 8.7 MILLION BAGS OF COFFEE IN THE INTERNATIONAL MARKET. OF THIS TOTAL, A LITTLE LESS THAN 50 PER CENT - THAT IS, APPROXIMATELY 4.2 MILLION BAGS - WAS EXPORTED DURING THE JUNE-AUGUST QUARTER, SURPASSING BY FAR THE 1 MILLION BAGS AVERAGE SALES TARGET ESTABLISHED BY THE BRAZILIAN COFFEE INSTITUTE FOLLOWING THE DISASTROUS FROSTS OF 1975.

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(B) DURING THE FIRST SEVEN WORKING DAYS OF THE CURRENT MONTH, SALES OF APPROXIMATELY 800 THOUSAND BAGS WERE RECORDED, AND ON SEPTEMBER 10 ALONE - THE DATE OF THE LAST AIDE-MEMOIRE OF THE DEPARTMENT OF STATE - SALES AMOUNTED TO 288 THOUSAND BAGS, A RECORD FIGURE FOR THE CURRENT PERIOD.

(C) THE MINIMUM REGISTERED PRICE OF THE BCI IS FIXED AT

PRESENT AT US DOLLARS 1.34 PER LB. WEIGHT, A QUOTATION FAR LOWER THAN THE FOB PRICE OF SANTOS 4 COFFEES, TODAY AROUND US DOLS 1.48 PER LB.

(D) ACCORDING TO THE LATEST ESTIMATES, THE PRESENT BRAZILIAN CROP SHOULD REACH AROUND 6 MILLION BAGS, WHICH CORRESPONDS TO THE YEARLY DOMESTIC CONSUMPTION AND IT IS SIGNIFICANTLY LOWER THAN THE ESTIMATE OF 9 MILLION BAGS AS RELEASED BY THE UNITED STATES DEPARTMENT OF AGRICULTURE

THESE FIGURES, IN THE OPINION OF THE BRAZILIAN GOVERNMENT, CONSTITUTE AN OBJECTIVE AND UNCONTRADICTABLE TESTIMONY OF THE CORRECTNESS OF THE BRAZILIAN BEHAVIOR IN THE INTERNATIONAL MARKET AND OF ITS COMPLIANCE WITH THE PRINCIPLES THAT GUIDED THE NEGOTIATION OF THE NEW INTERNATIONAL AGREEMENT. THEY REFUTE, THUS, ANY INTERPRETATION THAT WOULD SHOW BRAZIL AS TRYING TO TAKE ADVANTAGE OF THE VULNERABILITY OF THE IMPORTING COUNTRIES DURING THE CURRENT PHASE OF SCARCITY - WHICH COULD BE DONE THROUGH MANIPULATION OF REGISTERED PRICES OF BRAZILIAN EXPORTS OR RESTRAINT OF SALES ABROAD. IT IS WORTH NOTING THAT AFTER AN EXTREMELY BRIEF INTERRUPTION FOLLOWING THE FROSTS, THE SALES REGISTRATION OF THE BIC WAS OPENED AND SO IT CONTINUES TO DATE.

THE INSTALLED CAPACITY OF THE "FREEZE-DRIED" INSTANT COFFEE INDUSTRY IN BRAZIL IS 579 THOUSAND BAGS PER YEAR. OF THIS TOTAL, INSTALLATIONS WITH CAPACITY TO PROCESS 129 THOUSAND BAGS PER YEAR ARE CURRENTLY PARALYZED. THERE IS UNDER STUDY, IN SUDENE, A PROJECT FOR THE INSTALLATION OF "FREEZE-DRIED" FACILITIES WITH A CAPACITY OF 200,000 BAGS PER YEAR. THE "SPRAY-DRIED" INSTANT COFFEE INDUSTRY HAS A MUCH HIGHER CAPACITY, AS IT IS WELL KNOWN. IT CAN BE SEEN FROM THESE FIGURES THAT BRAZIL HAS AMPLE CONDI-

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TIONS FOR THE INDUSTRIALIZATION OF SUBSTANTIAL IMPORT QUANTITIES, THROUGH OPERATIONS THAT ARE FULLY JUSTIFIED FROM THE COMMERCIAL VIEWPOINT.

THE BRAZILIAN GOVERNMENT HAS NO INTENTION TO RAISE ARTIFICIALLY THE INTERNATIONAL PRICES OF COFFEE, TO THE DETRIMENT OF THE PURPOSES EXPRESSED IN ARTICLE 2(2) OF THE AGREEMENT. NEVERTHELESS, IT IS CONVINCED THAT THE INTERESTS OF THE PRODUCERS WOULD NOT BE SERVED, SHOULD QUOTATIONS FAIL TO REFLECT THE REAL STATISTICAL SITUATION OF THE MARKET.

IN THIS SENSE, THE BRAZILIAN GOVERNMENT HAS BEEN WATCHING WITH GROWING CONCERN THE EVENTS OCCURING IN THE NEW YORK COFFEE AND SUGAR EXCHANGE. IT OBSERVES, WITH APPREHEN-

SION, THAT NO STEPS HAVE BEEN TAKEN, WHETHER BY THE EXCHANGE ITSELF, WHETHER BY THE COMMODITIES FUTURE TRADING COMMISSION, TO HALT THE MANIPULATIONS OF SPECULATORS THAT LED LAST JULY TO AN ABRUPT AND SUBSTANTIAL FALL IN QUOTATIONS. THUS, BETWEEN JUNE 8 AND JULY 20, THE SEPTEMBER POSITION OF CONTRACT "C" FELL FROM 157.3 CENTS TO 120.35, WITHOUT ANY ALTERATION WHATSOEVER OCCURRING IN THE WORLD SUPPLY AND DEMAND PICTURE. IN CONTRAST WITH THE PASSIVENESS SHOWN AT THE TIME, THE EXCHANGE CONTROL COMMISSION, DURING THE PAST FEW WEEKS, HAS BEEN TAKING MEASURES TO CURTAIL OPERATION OF CONTRACT "C" IN THE SEPTEMBER POSITIONS, THUS CLEARLY INTERVENING INTO THE MARKET FORCES.

AT THE RECENT SESSION OF THE EXECUTIVE BOARD OF THE INTERNATIONAL COFFEE ORGANIZATION, THE TRANSACTIONS BETWEEN EXPORTER MEMBERS WERE SUBJECTED TO A PRELIMINARY EXAMINATION, THERE BEING NO RECORD OF ANY DELEGATION, INCLUDING THE AMERICAN, HAVING PROPOSALS TO SUBMIT. DESPITE THIS FACT, AND IN THE LIGHT OF THE SPIRIT OF COOPERATION WHICH HAS GUIDED THE RELATIONS BETWEEN BRAZIL AND THE UNITED STATES OF AMERICA IN MATTERS RELATING TO COFFEE, THE REPRESENTATIVE OF BRAZIL TO THE OIC WAS SOON THEREAFTER INSTRUCTED TO SEEK A PRIOR UNDERSTANDING WITH HIS AMERICAN COLLEAGUE IN REGARD TO THE TECHNICAL PROBLEMS ARISING OUT FROM TRANSACTIONS OF THIS NATURE TOUCHING THE SYSTEMS OF CONTROL OF EXPORTS. ON THE 8TH OF THE CURRENT MONTH, AT LIMITED OFFICIAL USE

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THE AMERICAN EMBASSY IN LONDON, THE FIRST CONTACT TOOK PLACE ON THE MATTER, IN WHICH OCCASION THE BRAZILIAN REPRESENTATIVE PRESENTED A PROPOSAL WHEREBY BRAZIL WOULD DEDUCT FROM ITS TOTAL SALES THE QUANTITIES IMPORTED FROM OTHER EXPORTER MEMBERS. THE BRAZILIAN GOVERNMENT DESIRED TO FOLLOWUP THE UNDERSTANDING BETWEEN THE REPRESENTATIVES OF BOTH COUNTRIES IN THE ORGANIZATION, IN ORDER THAT AT THE NEXT MEETING OF THE COUNCIL THEY MAY ALREADY BE ABLE TO PRESENT A FORMAL PROPOSAL TOWARDS SOLUTION OF THE OPEN TECHNICAL QUESTIONS. END TEXT.

2. THE ABOVE IS AN UNOFFICIAL TRANSLATION SUPPLIED BY THE EMBASSY OF BRAZIL. HABIB

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: COFFEE, POLICIES, AIDE MEMOIRE
Control Number: n/a
Copy: SINGLE
Draft Date: 17 SEP 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: BoyleJA
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976STATE230173
Document Source: CORE
Document Unique ID: 00
Drafter: TJO'DONNELL:BLO
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760352-0478
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760948/aaaaboop.tel
Line Count: 214
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: BoyleJA
Review Comment: n/a
Review Content Flags:
Review Date: 23 APR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <23 APR 2004 by CollinP0>; APPROVED <13 AUG 2004 by BoyleJA>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: BRAZIL COFFEE PURCHASES
TAGS: ETRD, EAGR, BR, US
To: BRASILIA
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006